State of Alaska
ALASKA RETIREMENT MANAGEMENT BOARD
Relating to Domestic Fixed Income Guidelines

Resolution 2007-24

WHEREAS, the Alaska Retirement Management Board (Board) was established by law to serve as trustee to the assets of the State's retirement systems; and

WHEREAS, under AS 37.10.210-220, the Board is to establish and determine the investment objectives and policy for the funds of the Public Employees' Retirement System, Teachers' Retirement System, Judicial Retirement System, and Alaska National Guard and Naval Militia Retirement System; and

WHEREAS, AS 37.10.071 and AS 37.10.210-220 require the Board to apply the prudent investor rule and exercise the fiduciary duty in the sole financial best interest of the funds entrusted to it and treat beneficiaries thereof with impartiality; and

WHEREAS, the Board contracts an independent consultant to provide experience and expertise in asset allocation and other investment matters to come before the Board; and

WHEREAS, the Board has established an asset allocation for the funds that considers earnings and liabilities on a current as well as a future basis; and

WHEREAS, the Board has authorized investment in fixed income securities; and

WHEREAS, the Board will establish and from time to time as necessary modify guidelines for fixed income securities.

NOW THEREFORE BE IT RESOLVED THAT THE ALASKA RETIREMENT MANAGEMENT BOARD adopts the attached Domestic Fixed Income Guidelines, attached hereto and made a part hereof, regarding investment in domestic fixed income securities.

This resolution repeals and replaces Resolution 2006-03

DATED at Anchorage, Alaska this 14th day of June, 2007.

Chair

ATTEST:

Gayle W. Harbo
Secretary

DOMESTIC FIXED INCOME INVESTMENT GUIDELINES

A. **Purpose.** The emphasis of investments in fixed income securities shall be diversification, subject to defined constraints, to minimize risk.

B. **Lehman Brothers Aggregate Index Portfolio.**

1. **Investment Structure.** Permissible U.S. dollar denominated debt Investments shall be limited to the following:

   a. Money market investments comprising:

      1. Repurchase agreements collateralized only by U.S. Treasury obligations, including bills, notes, and bonds, and only when the collateral carries a market value equal to or greater than 102% of the amount of the repurchase agreements, and only when the custodial bank appointed by retirement funds will take custody of the collateral; and

      2. Commercial paper rated at least Prime-1 by Moody's Investor Services, Inc. and A-1 by Standard and Poor's Corporation; and

      3. Negotiable certificates of deposit and bankers acceptances; provided that an issuing bank must have total assets in excess of $5 billion.

   b. United States Treasury obligations including bills, notes, bonds other debt obligations issued by the United States Treasury, and backed by the full faith and credit of the U.S. Government.

   c. Other full faith and credit obligations of the U.S. Government.

   d. Securities issued or guaranteed by agencies and instrumentalities of the U.S. Government, but not explicitly backed by the full faith and credit of the U.S. Government.

   e. Securities issued or guaranteed by municipalities in the United States.

   f. Obligations of foreign governments, sovereign states, supranational entities, and their instrumentalities denominated in U.S. dollars.

g. Investment grade corporate debt securities comprising:

    1. Corporate debt issued in the U.S. capital markets by U.S. companies; and

    2. Euro-dollar debt (that is, U.S. dollar-denominated securities issued outside the U.S. capital markets by U.S. companies or by foreign issuers); and

    3. Yankee debt (that is, U.S. dollar denominated obligations and issued in the U.S. capital markets by foreign issuers).

h. Asset-backed Securities (ABS).

i. Agency and non-agency mortgage-backed securities backed by loans secured by residential, multifamily and commercial properties including, but not limited to pass-throughs, collateralized mortgage loans (CMO's), project loans, construction loans and adjustable rate mortgages.

j. Total return swaps referenced to components or sub-components of fixed income indices. To mitigate interest rate risk, the proceeds may not be invested in securities with a maturity beyond 90 days, unless invested in the Department of Revenue internally-managed Short-Term Fixed Income Pool.

k. The internally managed short-term or substantially similar portfolio.

l. The internally managed enhanced cash fund or substantially similar portfolio.

2. **Limitation on Holdings.** The manager of the fixed-income portfolio shall apply appropriate diversification standards subject, however, to the following limitations based on the current market value of assets:

    a. The portfolio's duration may not exceed a band of +/-20% around the duration of the Lehman Brothers Aggregate Index.

    b. Investments in fixed-income securities shall be placed solely in U.S. dollar denominated debt instruments.

    c. The manager may not invest more than 40% of the portfolio's assets in investment grade corporate debt.

d. Corporate, asset-backed and non-agency mortgage securities must be rated investment grade. The investment grade rating is defined as the median rating of the following three rating agencies: Standard & Poor's Corporation, Moody's and Fitch. Asset-backed and non-agency mortgage securities may be purchased if only rated by one of these agencies if they are rated AAA. Corporate bonds may be purchased if rated by two of these agencies.

e. The manager may not invest more than 15% of the portfolio's assets in BBB+ to BBB- rated debt by Standard and Poor's Corporation or the equivalents by Moody's or Fitch.

f. The manager may not invest more than 25% of the portfolio's assets in any one corporate sector as defined by the Lehman Brothers Aggregate Index.

g. The manager may not purchase more than 10% of the currently outstanding par value of any corporate bond issue.

h. The manager may not invest more than 5% of the portfolio's assets in corporate bonds of any one company or affiliated group.

3. **Coverage.** The manager will execute trades with dealers that will execute orders promptly at the most favorable prices reasonably attainable.

a. **Internally managed assets.** The manager may only execute trades with U.S. Treasury primary dealers; provided that the dealer shall have a minimum of $200,000,000 in capital. This requirement does not apply to or restrict trades with direct issuers of commercial paper and mortgage-backed securities otherwise eligible for investment under these guidelines. The dealers must be able to execute orders promptly at the most favorable prices reasonably attainable.

b. **Externally managed assets.** Internal cross trades are permitted at prevailing market levels, in accordance with Department of Labor's Prohibited Transaction Exemption 95-66.

4. **Specific Exclusions on Investments.** The manager shall apply appropriate limitations designed to reduce risk exposure at the time investment securities are purchased, and shall, at a minimum, apply the following limitations:

a. There shall be no investment in private placements, except Rule 144A securities.

b. The manager shall not sell securities short.

c. The manager shall not purchase securities on margin.

d. The manager shall not utilize options or futures.

5. **Required Remedies.** Recognizing that ratings and relative asset worth may change, the manager shall liquidate invested securities with care and prudence when the credit rating of a security falls below the minimum standards set in these guidelines or when the relative market value of that investment type exceeds the levels of holdings permitted in these guidelines. The manager is required to notify the chief investment officer to discuss the situation and the proposed liquidation strategy if it is not prudent simply to liquidate immediately.